

Recent Price Developments

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CONTINUING a trend that began last August, many commodity prices moved upward during the first quarter of this year. Although large increases over last fall have been mainly confined to basic commodities, advances among processed and fabricated goods were increasingly numerous and in many instances substantial. Prices of all commodities other than farm products and foods, as reported by the United States Bureau of Labor Statistics, were only 4 percent higher by the end of March than in mid-August of last year, but prices of many commodities, especially those affected by the procurement needs of the armed forces, were higher by a much wider margin.

Wholesale lumber prices generally were about 20 percent higher, woolen and worsted goods 12 percent, cotton goods 23 percent, leather about 7 percent; and prices of a number of specific items among these groups were up in a much greater degree. With some exceptions, such as the specific lumber prices that advanced most sharply last fall and that have declined to some extent, the tendency among these prices since the first of the year has been to hold their large increases of preceding months or to continue upward. Among food prices at wholesale, meats were higher by about 10 percent.

Notable advances have occurred recently in many other lines, including clothing, furniture, housefurnishings, refrigerators, kitchen utensils and small appliances, hardware, and office supplies. Discounts and other concessions formerly available have been reduced or eliminated from the terms of sale in many price areas, thus contributing to the rise in effective prices.

Wholesale price increases began filtering down into retail lines some time ago, notably in clothing, furniture, refrigerators, and other items just mentioned. Men's clothing, including overalls and work shirts, was one of the first to be affected, with repeated small increases since last fall. This movement was more than offset in January and February by cut-price sales of women's wear, so the clothing component of the cost-of-living index for goods purchased by wage earners and lower-salaried workers fell slightly in those months. (See fig. 7.)

Nevertheless, because of increases in practically all other items the combined cost-of-living index advanced slightly in February. This gain was particularly noteworthy among food prices, beef prices declining somewhat but pork advancing sharply. A seasonal drop in egg prices also occurred, but prices of most other foods increased. Notwithstanding a definitely upward tendency, the 2-percent rise in the cost of living from

June 1939 to February 1940, although substantial for this indicator, was small in comparison, for example, with the advance of almost 7 percent from April 1936 to September 1937. Though living costs were higher in February than at any time since the middle of 1938, they still were about 3.5 percent below September 1937.

Considering the pace of industrial activity and current emphasis on speed in production and delivery, the rise of wholesale commodity prices has also been, in general, moderate. (In considering individual prices,

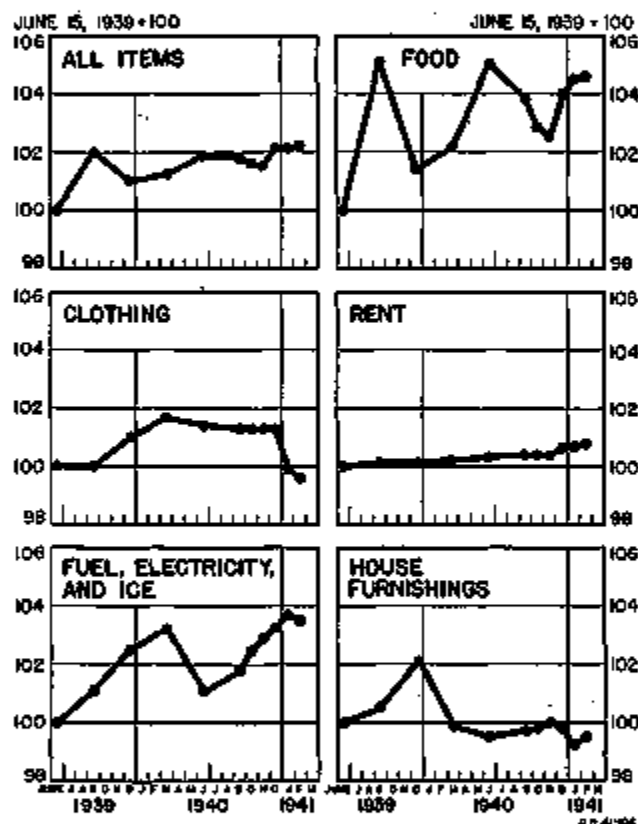


Figure 7.—Indexes of Cost of Living, 1937-41.

Note.—The indexes have been recomputed, with June 15, 1939, as base, from the indexes of cost of goods purchased by wage earners and lower salaried workers published by the U. S. Department of Labor. Data plotted are for the 15th of the last month in each quarter through September 1940 and for the 15th of each month thereafter. The index of "all items" includes a miscellaneous group not shown separately in this chart.

however, it should be remembered that a great reduction of overhead costs per unit of output has occurred in many industries where output has risen to capacity or near-capacity levels.) At the end of March the "all commodity" index was still 7 percent below the highest point reached in 1937. Even the index for commodities other than farm products and foods, which excludes the groups that fell furthest from 1937 to 1939, had not quite equaled its highest mark for 1937. Nor has the

increase since August 1940 been at an exceptionally rapid rate except for particular prices or groups of prices, especially imported raw materials and certain finished items in heavy demand by the Army and Navy.

It should, none the less, be stressed that the over-all tendency is an upward movement, and that price increases are appearing more and more frequently. Quoted prices fail to reflect the full extent of these increases, not only because of the elimination of various price concessions but also because of premium payments for quick delivery. The extent of these practices is not known, but they are probably common in cases where operations would have to be stopped or seriously curtailed if supplies of an essential item were not obtained.

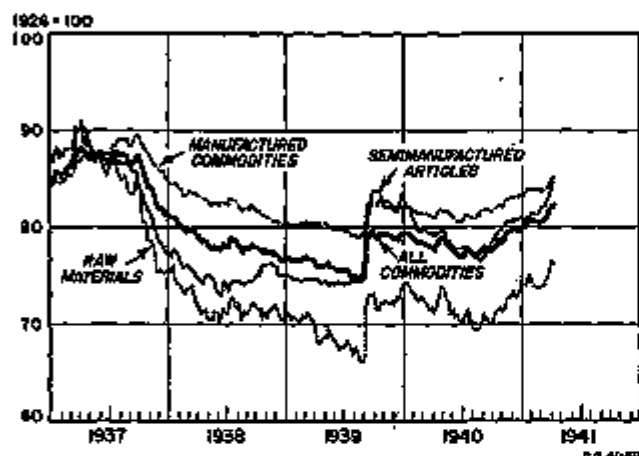


Figure 8.—Weekly Indexes of Wholesale Prices, January 2, 1937-March 22, 1941 (U. S. Department of Labor).

The Character of the Price Rise to Date.

The net movement of commodity prices since the war broke out in September 1939 has not been that of a roughly proportionate rise in all prices, but rather a lifting of those sensitive prices which in the 2-year period immediately preceding the outbreak of war had been depressed most. Since many quoted prices fell relatively little or not at all in this period, and have changed but slightly since August 1939, the tendency of the price increases since the latter date has been to reduce the dispersion of prices that resulted from their relative movements after the middle of 1937. This tendency is reflected in a somewhat greater relative rise in prices of raw materials than in those of manufactured goods, as evidenced in figure 8, both for the net movement since August 1939 and for the period of sustained increase since August 1940. Figure 9, in which are shown the net changes in the prices of representative individual commodities between selected weeks in 1937 and 1939, and 1939 and 1941, provides an even better indication of this tendency. For example, this figure shows that the price of No. 3 yellow corn dropped about 68 percent from the week of May 8, 1937, to the week of August 19, 1939. From the latter

date to the recent week of March 15 the price rose 43 percent, this general movement being typical of most agricultural items and of a small number of basic industrial materials. On the other hand, prices of finished steel, cement, plate glass, and sulfuric acid, which changed not at all or only in comparatively slight degree in the first period, likewise advanced little or not at all after the outbreak of war.

Price behavior of the type demonstrated is nothing new. It is the rule rather than the exception for prices of raw materials to fluctuate more widely than those of semimanufactured goods, and for the latter to fluctuate more than prices of manufactured goods. The fact should be stressed, moreover, that the price advance which has occurred is one that is not unexpected, given partially unutilized resources at the outset, tending to limit price increases, but given also such factors as a tremendous increase in the demand for goods, an urgent need for quick delivery, and a marked shift in the character of goods demanded. Cessation or delay of export and import trade has tended to depress some prices or limit their advance, while contributing to the rise of other prices.

To this list of conditioning circumstances must also be added a wide recognition of the need for maintaining as stable a price structure as possible. The Price Stabilization Division of the National Defense Advisory Commission, which is charged with the task of preventing unnecessary or unjustified price increases, has had some success in this direction. In instances where the demand is obviously greater than the supply likely to be available in the near term, attempts have been made to control the price while the basic shortage of supply is being corrected. However, the activities of the Price Stabilization Division have been largely confined to the situations that have been most acute, and the net result of all the influences at work has been a tendency toward at least a slight strengthening of prices over a wide area of the economy.

Basic Commodity Prices.

The familiarly sensitive prices of leading basic commodities have experienced the most substantial rise for any diverse group. Over the 7 months from August 19 to the end of March the Bureau of Labor Statistics' basic commodity price index scored a net increase of 28 percent. (See fig. 10.) Although the import component of this index rose more than the domestic, with almost half its advance of 37 percent occurring after the middle of February, the domestic items in the index rose about 22 percent on the average.

The fact that all import prices in the index were significantly and in most cases substantially higher in the latter part of March than in mid-August of last year suggests the importance of such general factors as increased consumption, forward buying and higher shipping rates. As shown in an article on page 13 of

markets with resulting price increases and speculative holding of supplies. The size of these markets—that is, the large number of sellers of scrap metal—renders the problem of controlling speculation difficult. Conditions during the first quarter of this year were such that not only the prices of metal refined from scrap but, in some instances, the prices of scrap itself (mainly the better grades) were above the refined prices of primary producers. A series of warnings by the Price Stabilization Division of the Defense Commission to scrap-metal dealers was followed on March 23 by an

metals the picture is therefore one of substantial and sustained advance over a period of more than 7 months. Not only the fact that the index of basic commodity prices has surpassed the peak reached in September 1939, but also the fact that the recent movement has persisted for so long a time (in contrast with the sudden rise when war broke out), is significant to the outlook for commodity prices generally. Although industrial purchasers of basic materials may in many instances still have on hand supplies purchased prior to the current advance in sensitive prices, prices of processed and fabricated articles are likely to reflect increasingly the fact that such supplies can usually be replenished only at the higher levels now prevailing.

Other Commodity Prices.

As noted above, the prices of goods other than basic materials have not been immune to the pressures operating in recent months. Prices of semimanufactured and manufactured goods were 10 percent and 4 percent higher, respectively, at the end of March than in the middle of last August, about half each increase having occurred since the first of this year. Many of these prices, especially in the semimanufactured group, are almost as volatile as those of raw commodities, either because raw materials themselves constitute an important part of total production costs, because the industry is highly competitive, or for other reasons.

Some of the most important procurement items of the armed forces have been among the processed or fabricated commodities whose prices have advanced most since last August. These include lumber, wool goods—uniform cloth, blankets, socks, gloves—leather goods, selected cotton goods. Increases in individual lumber prices ranged up to 50 percent in such cases as that of Southern Pine, yellow, No. 2 common boards, quotations on which averaged \$21.86 per thousand board feet in July and \$33.01 in November, dropping to \$31.77, however, at the end of March. In many cases, particularly on the No. 3 grade, the prices actually paid in the peak buying period included substantial premiums over the quoted price. Despite recent declines in prices of low-grade construction lumber the Bureau of Labor Statistics' index of lumber prices dropped only 2 percent from the end of December to the end of March, owing to recent increases for many items that did not share the rise last fall. Thus the f. o. b. mill value of Southern hardwoods, No. 2 common and better, rose from \$33.28 per thousand board feet in November to \$35.48 in February.

Early in August the price paid for 452,000 pairs of Army service shoes purchased from one company was \$2.48 per pair, which was within a few cents of the lowest bids on announced requirements up to that point in 1940. Later that month orders were placed for 1,000,000 pairs at an average price of \$2.49. Further purchase of 2,397,000 pairs was made in October on a negotiated contract basis with an average price of \$2.83,

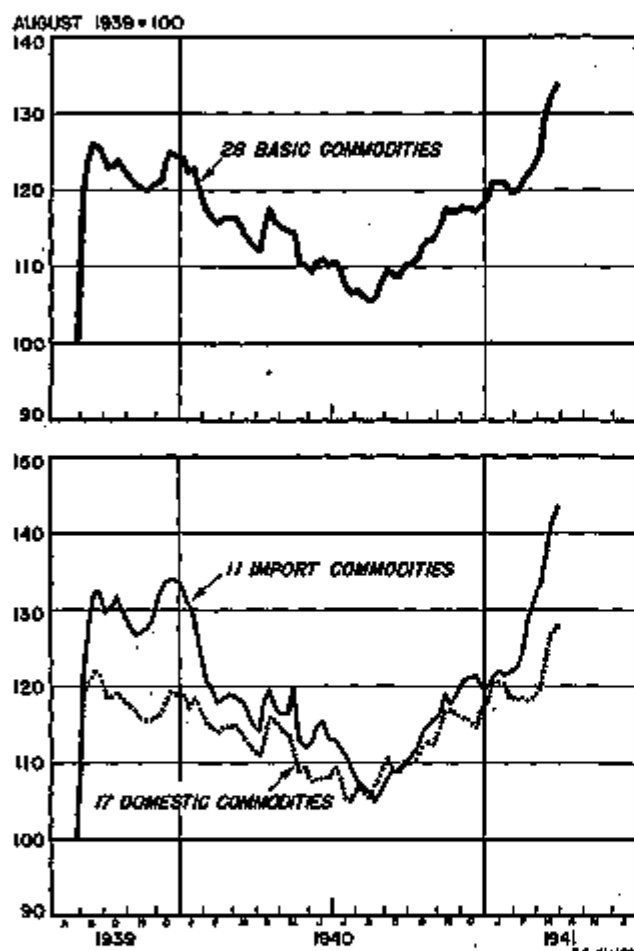


Figure 10.—Indexes of Daily Spot Market Prices, August 31, 1939=100 (U. S. Department of Labor).

Note.—Daily figures August 1939=100. Data plotted are for Thursday each week, unless a holiday falls on this day, in which case Wednesday prices are plotted.

order setting maximum prices for scrap aluminum and secondary aluminum ingots, and on March 31 by a similar order covering the secondary zinc markets. Both orders allowed a brief period for deliveries of secondary metal at prices higher than those stipulated in the new schedules, provided such deliveries were under the terms of contracts entered into prior to the date of the Defense Commission order, and provided such deliveries were made or accepted to enable the seller to avoid loss.

With respect to basic commodity prices other than those of primary producers of domestic nonferrous

and, in December, orders for 1,840,000 pairs, based on competitive bidding, brought an average price of \$3.32—an increase of 34 percent over the price paid at the beginning of August.

Total Army service-shoe purchasing of more than 7,000,000 pairs since last May (including 1,827,000 pairs purchased in February) comprised less than 2 percent of total shoe production in 1940 and only about 7 percent of the production of men's work and dress shoes. Factors in the price rise from July to December included advancing hide prices and some temporary scarcity of tanned leather of a grade that would meet Army specifications. With increased hide imports beginning late last year, and with reduced exports of sole leather in January, hide prices dropped. Nevertheless, about \$3.31 per pair was paid for service shoes in February, or roughly only 1 cent less per pair than in December. Civilian-shoe prices have recently shown strengthening tendencies, whereas cost increases last fall were offset to some extent in quality changes with little change in price.

Raw-wool, wool-tops, and finished wool-cloth prices have all advanced considerably since June of last year, when the program of heavy Army buying began. Domestic raw-wool prices rose about 20 percent last fall and have weakened only slightly since November when permission for manufacturers to use some foreign wools in meeting procurement orders was granted. The rise in prices of wool tops was more spectacular (about 35 percent from early June to late October, with further advances in the first 2 months of this year), owing to limited wool-combing capacity. Prices on fall lines of woolen goods were advanced sharply early this year, and there is some evidence that less than half these increases could be explained on the basis of higher raw-wool prices. Moreover, average hourly earnings in the woolen and worsted industry rose but 2 percent between August and January. Advancing cloth prices and wage increases now going into effect among both fabric and apparel companies will contribute to indicated retail-price increases of \$1.50 to \$5 on men's fall suits.

The rise of 23 percent in prices of all types of cotton goods since last August has already been noted. According to the U. S. Department of Agriculture, the average margin between the wholesale prices of 17 cloth constructions and the cost of cotton used (with an allowance for waste in manufacture and noncotton con-

tent of the cloth) rose 40 percent between August last and February of this year. During the same period the rate of cotton consumption increased 33 percent, and average hourly earnings rose only 2 percent. For most cotton-textile constructions, in contrast with the situation in wool, the volume of Government buying did not contribute greatly to the rise of prices.

In many cases the quick-delivery periods specified on Government orders, rather than cost increases, were said to be responsible for the upswing in prices. In view of the fact that substantial quantities of goods necessary in the initial stages of the military training program have already been obtained, and in view also of increased coordination of procurement, some price reduction in this area might logically be expected. Despite the justification for declines in some prices, however, the rapid acceleration of consumer buying is not conducive to changes in this direction.

Although the Iron Age composite price of finished steel is still only 1 percent higher than in August 1939, effective prices are higher to the extent that discounts and other concessions available to steel consumers in slack periods have been removed. Automobile prices were advanced about 5 percent last fall, but with minor exceptions have remained unchanged at the new levels. Prices of concrete building blocks rose about 16 percent from last August to late March. Paint and paint material prices rose only 4 percent, although turpentine increased much more sharply. Some chemical prices, notably those of essential oils and botanical drugs obtained chiefly from Continental Europe, have continued to advance. Scattered increases in the prices of other commodities, such as coke and paperboard, have also occurred.

Despite the number of commodity prices that have already advanced, there has not been the substantial rise in practically all prices that would result if the flow of total expenditures were materially to exceed the total volume of goods available at current prices. The present approach to price problems is largely that of individual rather than general price control. Because of the tendency for individual price increases to communicate themselves to other prices, and the tendency for price increases to stimulate demands for wage increases, successful control of individual prices obviously contributes to the avoidance of conditions under which general price control might become necessary.